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# **OFFICE OF TREASURY AND FISCAL SERVICES**

**(48600)**

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**PURCHASING CARD AUDIT  
Final Report  
June 6, 2008**

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## **Executive Summary**

### **Office of Treasury and Fiscal Services**

#### **48600**

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Text in green represents the Office of Treasury and Fiscal Services' exceptions to the Draft Summary Report.

Text in blue represents the State Purchasing Process Improvement's response to the Agency or revisions made to the Draft Summary Report.

## **Purpose and Objectives**

The Process Improvement Team from the Department of Administrative Services, State Purchasing Division, recently conducted a process improvement review of the purchasing card program at the Office of Treasury and Fiscal Services (OTFS) for the period August 28, 2006, through September 27, 2007. This review had the following purposes:

1. To determine if purchasing card activities complied with the Statewide Purchasing Card Contract Guide and Agency policies and procedures;
2. To identify "best practices" that the Agency has implemented;
3. To identify areas of risk to the Agency and/or to the State; and
4. To develop action plans for improvement of the program as implemented at the Agency, if warranted.

Each State organization has a responsibility to ensure that their purchasing card activities are controlled and that their risks are prudently and soundly managed. It is the responsibility of the Process Improvement Team within State Purchasing Division to assess use of and controls on the program. The Process Improvement Team uses a risk-based approach to classify areas in need of improvement into pre-defined high, medium, and low risk levels. This report discusses only the high and medium risk levels and summarizes the results of the review, recognizes areas of outstanding program management, and presents recommendations for improvements.

### **OTFS Exception #1**

In addition, the Report fails to identify OTFS as an "attached agency" to DOAS. In this relationship DOAS is responsible for processing and documentation of OTFS purchasing card transactions. In fact, DOAS possessed more information about OTFS' Purchasing Card transactions than OTFS did, due to various DOAS reporting tools that were not available to OTFS.

### **State Purchasing Division Response to Exception #1**

OCGA 50-4-3 provides for smaller agencies to be administratively attached to larger agencies to relieve the smaller agency of the burden of hiring administrative and clerical staff that would not be feasible from a budgetary standpoint. The code section states that the attachment is for administrative purposes only and that the attached agency maintains its own identity, including responsibility for its own policy-making.

Furthermore, the State Purchasing Card Contract Guide, the statewide policy in effect prior to November 2007, assigns responsibility for documentation of purchasing card activity to the cardholders, their supervisors, and, ultimately, to their agencies. As the Agency to which OTFS

is attached, DOAS is responsible only for ensuring the timely payment of the monthly billing statement and maintaining the documentation submitted by OTFS in support of that payment once the payment is made.

Therefore, there was no need to identify OTFS as an “attached” Agency in the report.

DOAS has not used any “reporting tools that were not available to OTFS”. As a result, DOAS did not have any more information about the transactions than should OTFS management have had. The reporting tool recommended in the report is available through Works Payment Manager but was not being utilized. The action plans require DOAS to supply this report to OTFS on a regular basis.

### **OTFS Exception #2**

Most importantly, the Report fails to acknowledge the absence of fraud and abuse in the use of the State purchasing card by OTFS. This omission creates a misleading picture of OTFS’ Purchasing Card activities and overall risk level at OTFS.

### **State Purchasing Division Response to Exception #2**

The purposes of the Process Improvement review were identified in the opening paragraph of the report. The purpose of the report was not to make the statement that there was no fraud. The purpose was to evaluate the Agency’s purchasing card activities and to make recommendations for improvement where needed. The recommendations were intended to inform Agency personnel of the new requirements of statewide policy in areas where current practice did not comply with the newer requirements.

All findings and recommendations discussed in this report relate to non-compliance with statewide and/or OTFS internal policy and do not indicate the presence of any fraud.

## **Scope and Methodology**

The evaluation of the State Purchasing Card Program as implemented at OTFS included the following: a review of the Agency’s purchasing card policy; a review of the transaction data; conversations with personnel involved in the day-to-day operations of the program; and an on-site review of the documentation for a sample of transactions.

The review consisted of three (3) program areas;

1. Internal Controls Review – an examination of the Agency’s purchasing card policy and internal controls over the program;
2. Transaction Data Review – a review of transaction analysis reports in Works Payment Manager;
3. On-Site Review to determine if:
  - a) The Agency maintained adequate documentation for all transactions;
  - b) Management oversight of card activity, including supervisory review,
  - c) met minimum requirements as outlined in the State Contract Guide;
  - d) Cardholders complied with transaction limits imposed on the cards;

- e) Transactions complied with requirements of the Official Code of Georgia (O.C.G.A.), the State Purchasing Card Contract Guide, and Agency policy with respect to types of purchases allowed on the card; and
- f) Employees complied with the Agency's internal policy for use of the card.

## **Acknowledgements**

The Process Improvement Team would like to thank Jeff Carman with OTFS for responses to email inquiries. The Process Improvement Team would also like to thank Charles Petty, Director of Administration; Tim Wright, Accounting Director; and Matt Carter, Procurement Manager, with the Department of Administrative Services for their assistance and cooperation during the review.

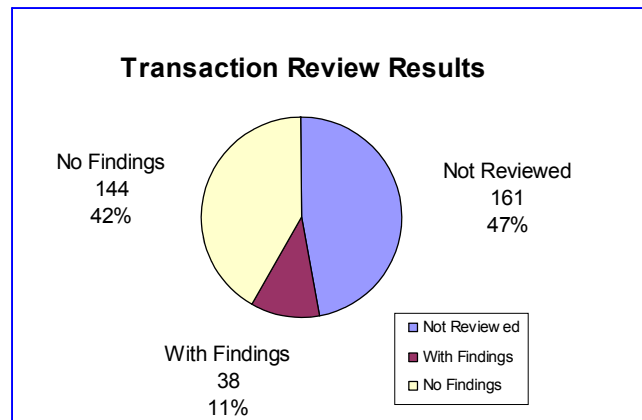
## Summary of Findings

Cardholders made 343 transactions for a total of \$52,903.31 during the period under review. As shown on the chart to the right, the Process Improvement Team reviewed 182, or 53.063%, of these transactions. Of the reviewed transactions, 38 contributed to four (4) findings related to transactions.

The Agency does not have a purchasing card policy separate from the Department of Administrative Services, the Agency to which OTFS is attached. Lack of an Agency policy and non-compliance with existing State and DOAS requirements for using the card resulted in an additional four (4) findings related to program administration.

This report presents recommendations to ensure that the Agency develops a policy suited to its needs while complying with the State Purchasing Card Policy published in November 2007. Other recommendations include additional training for cardholders and approving officials.

The tables below summarize the areas for improvement according to risk level and program area, along with suggested mitigation strategies for improving program administration.



The Process Improvement Team will perform a follow-up review no later than 12 months from the date of this report to determine level of improvement in these areas.

### High Risk Areas

Finding	Analysis Area	# of Occurrences	Transaction Amounts	Mitigation Strategy	Page #
No Agency Purchasing Card Policy	Internal Controls	1	N/A	Policy development	6-7
Inadequate Internal Review	Internal Controls	1	N/A	Policy enforcement; training	8-9
No Cardholder Agreements in File	Internal Controls	2	N/A	Policy enforcement; training	10-11
No Documentation in File	On-Site Review	12	\$496.80	Training	11-14
Inadequate Invoice Information	On-Site Review	28	\$3,014.94	Training	14-17

## Medium Risk Areas

Finding	Analysis Area	# of Occurrences	Transaction Amounts	Mitigation Strategy	Page #
Payment of Employee Travel Expenses	On-Site Review	2	\$51.00	Policy enforcement; training	17-18
Payment of Sales Tax	On-Site Review	2	\$60.61 (\$3.49 tax)	Policy enforcement; training	19-20

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## Findings by Program Area

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### ***Internal Controls***

The purpose of the Internal Controls Program is to determine if entity policies and procedures, when followed, adequately address the controls needed in order to protect the Agency against fraudulent use of the purchasing card.

#### **1. No Agency Purchasing Card Policy**

The Office of Treasury and Fiscal Services does not have an Agency purchasing card policy. Review of program administration and transactions showed a lack of compliance with the State Purchasing Card Contract Guide.

- Implication:** 1) Agency staff unaware of/not following rules and regulations which can lead to (a) financial losses; (b) fraud; (c) lawsuits; and (d) other risk exposure to the Agency or State; and 2) the Agency is not using the card to its full potential because of out-of-date or inaccurate restrictions on allowable purchases.
- Level of Risk:** **High** due to lack of adequate guidelines and non-compliance with existing guidelines.
- Reference:** State Purchasing Card Contract Guide

#### **Recommendation:**

The State Purchasing Card Contract Guide requires agencies to have a purchasing card policy that complies with the statewide policy. It is recommended that agency management adopt its own policy that addresses any unique needs the agency might have and that complies with the new State Purchasing Card Policy and State Purchasing Card User's Guide, as published in November 2007.

It is further recommended that the Agency provide training to all cardholders on the Agency policy once it is adopted.

#### **Action Plans:**

1. Review the new Statewide Purchasing Card Policy and Purchasing Card Administrative and User's Guide and use these documents to develop an Agency-specific internal policy and procedures by [March 31, 2008](#).
2. Provide a copy of the updated Agency purchasing card policy to Process Improvement by [March 31, 2008](#).
3. Meet with all cardholders to review the new State and Agency policies by [April 15, 2008](#).

[The following OTFS personnel attended training conducted by the DOAS Agency Procurement Officer on November 29, 2007, except where indicated. The State](#)

Purchasing Card Program Administrator was also present at that meeting. This training session satisfies the requirement for the Agency to review State policy with the cardholders shown below.

Names omitted for publication

It is recommended that Agency policy be reviewed with cardholders/supervisors no later than May 15, 2008.

4. Process Improvement will review the policy and provide feedback within 7 days of receipt of the policy.

### **OTFS Exception #3**

OTFS has followed the DOAS State Purchasing Card Policy and each OTFS card holder has read and understood that policy. This cannot be considered a high level of risk unless the DOAS policy is considered inadequate.

### **State Purchasing Division Response to Exception #3**

The State Purchasing Card Contract Guide, the statewide policy in effect during the period under review, required each Agency to have its own internal policy that addressed any unique needs or requirements that Agency might have. Any time that an Agency does not have an adequate policy in place, the Process Improvement Team will rate the finding as a high risk area.

The Process Improvement Team requested a copy of the policy for OTFS during the review and was told that OTFS follows the DOAS policy. The DOAS agency policy is not the same document as the "DOAS State Purchasing Card Policy", so it is unclear as to which policy the response is referring. The copy of the OTFS policy provided with the Agency's response has OTFS substituted for DOAS on the title page and did not have an effective date, so it could not be determined when the policy was issued. The policy was re-submitted on April 15, 2008, with an effective date of January 16, 2008, entered on the title page. However, the policy still needs updates to address findings cited in this report. These areas are shown in action plans as having a due date of March 31, 2008.

Management is to be commended for ensuring that cardholders and others attended the training held by DOAS, the Agency to which OTFS is attached, to complete a review of State Purchasing Card policy. Completion dates of this action are also noted in the Action Plan Summary of this report

This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk:** High will remain.

## **2. Inadequate Internal Review/Audit**

Because 20.88% of transactions reviewed (38 out of 182 reviewed transactions) were cited for one or more findings, it appears that OTFS personnel do not conduct adequate supervisory or other review of transactions.



**Implication:** 1) the Agency does not have adequate or independent oversight of the transactions; 2) fraudulent transactions could go undetected; and 3) lack of adherence to State policy.

**Level of Risk:** **High** due to the number of policy violations and/or transactions with inadequate documentation noted during this review.

**Reference:** State Purchasing Card Contract Guide

**Recommendation:**

The State Purchasing Card Policy requires each Agency to perform internal audit or other transaction monitoring activity on a regular basis. The internal review should determine if all transactions are supported by invoices or other accountable documents; if all transactions are for legitimate business needs; and if cardholders are maintaining documentation appropriate for the type of transaction.

It is recommended that the Office of Treasury and Fiscal Services implement regular internal reviews of its purchasing card transactions. Any deficiencies in documentation or other issues, such as payment of sales and use tax, should be addressed immediately in order to rectify the condition.

In order to inform both cardholders and management of program requirements, especially the documentation requirements, it is recommended that all personnel involved with the purchasing card attend the new State Purchasing Division training class, Introduction to Purchasing Card Principles. The State Purchasing Division has also made available to the agencies a PowerPoint presentation that summarizes the program and a checklist for agencies to use in order to evaluate its program. It is recommended that management take advantage of these new resources.

**Action Plans:**

1. Incorporate into the Agency policy the requirement for review of all transactions in addition to the monthly supervisory review by [March 31, 2008](#), using the guidelines in the self-assessment tool, attached to this report as Exhibit A.  
[The current version of the policy does not address management's responsibility to review transactions for independent audit or for sales tax.](#)
2. Designate the person or persons to conduct this independent review, frequency of reviews, and how the sample of transactions will be selected. [Incorporate these responsibilities into Agency policy by March 31, 2008.](#)  
[The current version of the policy does not address management's responsibility to review transactions for independent audit or for sales tax.](#)
3. The person or persons responsible for conducting both supervisory review and the independent review should attend the new Introduction to Purchasing Card Principles class offered by the Professional Development unit within State Purchasing Division. Training should be completed by March 31, 2008. Schedule and registration information for this class is shown on Exhibit B.

OTFS supervisors/reviewers attended training conducted by the DOAS Agency Procurement Officer on November 29, 2007. The State Purchasing Card Program Administrator was also present at that meeting. This training session satisfies the requirement for all supervisors/reviewers to attend the SPD Introduction to Purchasing Card Principles class.

Names omitted for publication

#### **OTFS Exception #4**

Purchasing card transactions were reviewed and no instances of fraud or abuse were found or noted in the Report. Again, this should not be considered a high level of risk. Furthermore, based on the fact that neither OTFS nor the Purchasing Card Auditor detected any instances of fraud or abuse, it is illogical to assume that a high level of risk exists. A logical analysis of the information reviewed by the DOAS auditor leads to the conclusion that there is not a high level of risk at OTFS.

#### **State Purchasing Division Response to Exception #4**

The high level of risk associated with lack of internal audit does not refer to specific findings associated with this report. Instead, it refers to the overall risk because inappropriate or fraudulent transactions could go undetected due to lack of adequate review by OTFS personnel. There were deficiencies in documentation as noted in the report, as well as payment of sales tax and disallowed purchases, that would have been identified and corrected had there been adequate internal review of transactions, either by the cardholders' supervisors and/or other personnel.

Management is to be commended for ensuring that persons responsible for conducting both supervisory review and the independent review attended the training held by DOAS, the Agency to which OTFS is attached. Completion dates of this action is also noted in the Action Plan Summary of this report.

This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk:** High will remain.

### **3. No Cardholder Agreements in File**

DOAS did not have copies of the agreements for all attached agencies. One of the cardholders for whom the agreement was missing made 93% of the dollar volume of transactions.

The Process Improvement Team requested copies of the agreements during the review but these have not yet been provided.

**Implication:** The agency does not have evidence of the cardholder's understanding of the responsibilities in the event of fraudulent or unauthorized use of the card.

**Level of Risk:** **High** due to the fact that there are no agreements on file for two-thirds of the cardholders. One of the cardholders for whom the agreement was missing made 93% of the dollar volume of transactions.

**Reference:** State Purchasing Card Contract Guide

**Recommendation:**

The State Purchasing Card Contract Guide requires cardholders to sign agreements indicating their understanding of the terms and conditions for use of the card. Cardholder agreements provide acknowledgement by the cardholder that all transactions will comply with State and agency guidelines. The agency should keep these agreements in a permanent cardholder file in order to defend any disciplinary actions that the agency might take as a result of misuse of the card or fraudulent use of the card.

It is recommended that all cardholders sign an agreement at the time of training when the card is issued and that supervisors sign all agreements. It is further recommended that the agency maintain files on all cardholders that contain, at a minimum, the original, signed cardholder agreement. This is also required by State policy.

**Action Plans:**

1. Incorporate into the Agency purchasing card policy the requirement for cardholders and their supervisors to sign cardholder agreements prior to receipt of the card by [March 31, 2008](#).
2. Require all cardholders to sign the cardholder agreement by [March 31, 2008](#).  
[NOTE: All cardholder agreements are now on file and have been reviewed by Process Improvement.]

**OTFS Exception #5**

OTFS maintains copies of all cardholder agreements (See attached). In addition, copies of cardholder agreements were signed and submitted to DOAS when the cards were issued. If DOAS misplaced the cardholder agreements, this represents inadequate controls at DOAS not OTFS.

**State Purchasing Division Response to Exception #5**

The Process Improvement Team requested copies of the cardholder agreements from OTFS staff ([names omitted for publication](#)) on October 25, 2007. The agreements were not provided as originally requested. The agency submitted a copy of ([name omitted for publication](#)) agreement with their response to the Draft Summary Report, but the agency failed to submit an agreement for ([name omitted for publication](#)). OTFS provided a copy of ([name omitted for publication](#)) agreement on April 8, 2008. All cardholders, regardless of the level of activity or the reason for issuance of the card, must have an agreement on file at the Agency.

[This finding will remain in the report.](#)

**Implications:** Original implications will remain.

**Level of Risk:** High will remain.

## ***On-Site Review***

The purpose of the On-Site Review program is to determine if transactions made with the state-issued purchasing card comply with (1) the State Purchasing Card Contract Guide/Policy, (2) Section 50-5 of the Official Code of Georgia, Annotated (O.C.G.A.), (3) the Georgia Procurement Manual, (4) the Georgia Vendor Manual, when applicable, and (5) the Agency's internal purchasing card program policy.

### **OTFS Exception #6**

Finally, the Report incorrectly states that an on-site review was performed when, in actuality, the reviewer never visited OTFS. All documentation was reviewed at DOAS. These omissions further the misleading picture created by the Report.

### **State Purchasing Division Response to Exception #6**

The term "on-site review" refers to the fact that the Process Improvement Team reviewed the documentation for transactions. OTFS sends all documentation to DOAS in order to support the payment of the monthly billing statement. There was no need to visit the OTFS office since all documentation was at the DOAS office. Communication with OTFS staff was done through email, some of which are referenced in responses to OTFS exceptions found in the body of this report.

The Process Improvement Team apologizes for any confusion this terminology might have caused.

## **1. No Documentation in File**

The Process Improvement Team reviewed the invoices and receipts to determine if cardholders maintained adequate accountable documents as required by the statewide purchasing card manual. The 12 transactions totaling \$496.80 shown in the following table did not have any documentation in the cardholder reconciliation file.

In response to these findings, management responded that BellSouth does not provide invoices. The Process Improvement Team confirmed with BellSouth that electronic and/or paper statements are available for all customers.

A list of transactions contributing to this finding was provided to the Office of Treasury and Fiscal Services.

**Implication:** 1) Fraudulent use could go undetected; and 2) inadequate supervisory review

**Level of Risk:** **High** due to the number of occurrences (12) and total dollar amount of \$496.80.

**Reference:** State Purchasing Card Contract Guide

**Recommendation:**

It is recommended that cardholders attach some form of documentation to the monthly log or billing statement for every transaction. For those merchants that do not send paper or electronic invoices or statements, this can be a copy of the original purchase indicating that they do not send monthly statements. Management should incorporate guidelines as to what constitutes appropriate transactions into the Agency policy using the information in the State Purchasing Card Policy dated November 2007 as a reference.

The Georgia Vendor Manual describes the information that invoices should reflect. The information applicable to purchasing card invoices or receipts is vendor information; date of the purchase; line item descriptions, quantities, and prices; and total amount of the charge. In the case of transactions for professional membership dues, the invoice should reflect the nature of the membership and the employee for whom the membership was paid. Subscriptions to magazines and newspapers should be supported by a subscription order form or renewal form showing the length of the subscription. Adequate documentation for printing jobs includes a description and/or copy of what was printed or, as in the case of newspaper advertisements, a copy of the advertisement.

It is further recommended that the cardholders, their supervisors, and others with approval responsibility take advantage of the new Introduction to Purchasing Card Principles course offered by the Professional Development unit within State Purchasing Division for assurance that Agency cardholder training is administered according to current guidelines.

**Action Plans:**

1. By [March 31, 2008](#), management should incorporate general guidelines as to what constitutes appropriate documentation for transactions into the Agency policy, using the information in the State Purchasing Card Administration and User's Guide as a reference.

[The policy effective January 16, 2008, contains a description of what is required on a receipt or invoice.](#)

2. By March 31, 2008, personnel responsible for supervisory or independent review should attend the Introduction to Purchasing Card Principles training session offered by the Professional Development team within State Purchasing Division. Schedule and registration information for this class is shown on Exhibit A.

[The following OTFS supervisors/reviewers attended training conducted by the DOAS Agency Procurement Officer on November 29, 2007. The State Purchasing Card Program Administrator was also present at that meeting. This training session satisfies the requirement for all personnel responsible for supervisory or independent review to attend the SPD Introduction to Purchasing Card Principles class.](#)

Names omitted for publication

### **OTFS Exception #7**

The majority of items cited for no documentation are related to OTFS' monthly dial-up internet service that is in place in case of an emergency as part of our business continuation plan. Bellsouth has indicated in the attached letter that they do not provide a monthly statement for users who pay with a credit card. The Bellsouth items account for 7 of the 12 occurrences noted in this finding. Removal of the 7 occurrences reduces the level of risk significantly.

### **State Purchasing Division Response to Exception #7**

The Process Improvement Team did not receive a copy of a letter from BellSouth but a copy of a statement showing charges for the "previous" month with activity (July 2007) and the "current" month" (October 2007), the number of times accessed, and the amount of time used during each month. It does not state that BellSouth "do[es] not provide a monthly statement for users who pay with a credit card." During the review, the Process Improvement Team contacted BellSouth to determine what kinds of statements were available. According to Rebecca Sherlin with BellSouth, the customer has the option to receive paper statements or not, with the other option being electronic.

Management is to be commended for ensuring that persons responsible for conducting both supervisory review and the independent review attended the training held by DOAS, the Agency to which OTFS is attached. Completion dates of this action is also noted in the Action Plan Summary of this report.

This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk:** High will remain.

## **2. Inadequate Invoice Information**

The Process Improvement Team reviewed the invoices and receipts to determine if cardholders maintained adequate accountable documents as required by the statewide purchasing card manual. The 28 transactions totaling \$3,014.94 shown in the following table did not meet these standards.

A list of transactions contributing to this finding was provided to the Office of Treasury and Fiscal Services.

<b>Implication:</b>	1) Fraudulent use could go undetected; and 2) inadequate supervisory review
<b>Level of Risk:</b>	<b>High</b> due to the number of occurrences (28) and total dollar amount of \$3,014.94
<b>Reference:</b>	State Purchasing Card Contract Guide Georgia Vendor Manual Chapter 8, Section 8.2

### **Recommendation:**

It is recommended that management include detailed explanations of what is considered adequate documentation in the agency policy. It is further recommended that the cardholders, their supervisors, and others with approval responsibility take advantage of the new Introduction to Purchasing Card Principles course offered by the Professional Development unit within State Purchasing Division for assurance that Agency cardholder training is administered according to current guidelines.

The Georgia Vendor Manual describes the information that invoices should reflect. The information applicable to purchasing card invoices or receipts is vendor information; date of the purchase; line item descriptions, quantities, and prices; and total amount of the charge. In the case of transactions for professional membership dues, the invoice should reflect the nature of the membership and the employee for whom the membership was paid. Subscriptions to magazines and newspapers should be supported by a subscription order form or renewal form showing the length of the subscription. Adequate documentation for printing jobs includes a description and/or copy of what was printed or, as in the case of newspaper advertisements, a copy of the advertisement.

### **Action Plans:**

1. Management should incorporate general guidelines as to what constitutes appropriate documentation for transactions into the Agency policy, using the information in the State Purchasing Card Administration and User's Guide as a reference, by [March 31, 2008](#).

[The policy effective January 16, 2008, contains a description of what is required on a receipt or invoice.](#)

2. Cardholders, their supervisors, and others responsible for reviewing transactions should attend the Introduction to Purchasing Card Principles training session offered by the Professional Development team within State Purchasing Division by March 31, 2008. Schedule and registration information for this class is shown on Exhibit A.

[The following OTFS cardholders/supervisors/reviewers attended training conducted by the DOAS Agency Procurement Officer on November 29, 2007, except where indicated. The State Purchasing Card Program Administrator was also present at that meeting. This training session satisfies the requirement for the Agency to review State policy with the cardholders shown below. However, it is noted that cardholder \(name omitted for publication\) has not attended training.](#)

[Names omitted for publication](#)

### **OTFS Exception #8**

[The majority of items cited for inadequate documentation are related to FedEx. OTFS staff thought that attaching the air bill provided sufficient documentation since prior to this audit DOAS purchasing never questioned the sufficiency of this documentation. The FedEx items account for 23 of the 28 occurrences noted in this finding. Since the](#)



majority of the items are for one vendor, the air bills were attached, and the amounts are small (all but one item is under \$10), this does not constitute a high level of risk.

#### **State Purchasing Division Response to Exception #8**

The State Accounting Manual and the State Purchasing Card Contract Guide in effect at the time of the transactions required that all transactions be supported by an invoice or statement detailing the nature of the expenditure and the amount. Specifically, the requirement was for an invoice or receipt showing a description of each item purchased, a unit price, the total amount for each line, and the total amount of the purchase.

Management is to be commended for ensuring that cardholders, supervisors, and reviewers attended the training held by DOAS, the Agency to which OTFS is attached. Completion dates of this action is also noted in the Action Plan Summary of this report

#### **OTFS Exception #9**

Finally, it would be helpful if documentation requirements and other standards are established and communicated at the start of a program like this. It is unreasonable to retroactively apply higher standards to an ongoing DOAS program, especially in the case of an attached agency.

#### **State Purchasing Division Response to Exception #9**

For purposes of this review, the Process Improvement Team used the documentation requirements and standards included in the State Purchasing Card Contract Guide issued in 2005, prior to the beginning date of this review period. The document was available on the State Purchasing Division web site. No higher standards were applied retroactively. Also, the Georgia Vendor Manual provides guidance as to what constitutes adequate documentation for transactions initiated with a purchase order. Since the purchasing card is only a method of payment, employees fulfilling procurement functions should be familiar with requirements included in both the Georgia Vendor Manual and the Georgia Procurement Manual. The status of the Agency as an "attached" Agency does not relieve the cardholder or the Agency of its responsibility to adequately document its transactions.

This finding will remain in the report since documentation did not meet the requirement of including the dollar amount of the transaction.

**Implications:** Original implications will remain.

**Level of Risk:** High will remain.

### **3. Payment of Employee Travel Expenses**

State Purchasing Card Contract Guide prohibits the payment of employee travel expenses on the purchasing card because of the need to report these expenses to the Department of Audits for the annual Salary and Travel Supplement. In order to do this, the expenses must flow through an employee expense report.



Review of the documentation indicated two travel related expenses totaling \$51.00 on the purchase card. These transactions are shown on the table below.

A list of transactions contributing to this finding was provided to the Office of Treasury and Fiscal Services.

**Implication:** Agency staff unaware of/not following rules/regulations which can lead to 1) financial loss, 2) fraud, 3) lawsuits, and 4) other risk exposure to the Agency/ State

**Level of Risk:** **Medium** due to the number of occurrences (2) and the dollar amount of \$51.00

**Reference:** State Purchasing Card Contract Guide

### **Recommendation:**

In its response to this finding, management responded that these expenses were "reasonable expense for transporting OTFS staff to an educational conference." The issue is not reasonableness but whether or not the expense is allowed. The State Purchase Card Contract Guide, page five (5), specifically prohibits "Travel and Entertainment Expenses."

It is recommended that management review the allowed and prohibited purchases, as listed in the State Purchasing Card Policy effective November 2007, with all cardholders to ensure that each cardholder understands how the card can and cannot be used. The State Purchasing Card Manager is developing a course entitled Introduction to Purchasing Card Principles. It is recommended that all cardholders and their supervisors contact the State Purchasing Division's Professional Development for the schedule of available sessions.

### **Action Plans:**

1. Management should incorporate the types of purchases that are allowed and prohibited on the purchasing card into its Agency purchasing card policy by [March 31, 2008](#).
2. Cardholders should attend the Introduction to Purchasing Card Principles training session offered by the Professional Development team within State Purchasing Division by February 29, 2007. Schedule and registration information for this class is shown on Exhibit B.

The following OTFS cardholders/supervisors/reviewers attended training conducted by the DOAS Agency Procurement Officer on November 29, 2007, except where indicated. The State Purchasing Card Program Administrator was also present at that meeting. This training session satisfies the requirement for the Agency to review State policy with the cardholders shown below. However, it is noted that cardholder (name omitted for publication) has not attended training.

Names omitted for publication

### **OTFS Exception #10**

OTFS purchasing card holders have attended the Purchasing Card Principles training session and are now aware that this type of expenditure is not authorized with the purchasing card. However, it should be noted that these were legitimate travel expenses for employees traveling on state business.

### **State Purchasing Division Response to Exception #10**

The above finding makes this statement: "In its response to this finding, management responded that these expenses were 'reasonable expense for transporting OTFS staff to an educational conference.' The issue is not reasonableness but whether or not the expense is allowed. The State Purchase Card Contract Guide, page five (5), specifically prohibits 'Travel and Entertainment Expenses.'" Since cardholders did make these expenditures in violation of existing policy, the finding will remain in the report.

Management is to be commended for ensuring that cardholders attended the training held by DOAS, the Agency to which OTFS is attached. Completion dates of this action is also noted in the Action Plan Summary of this report.

This finding will remain in the report.

**Implications:** Original implications will remain.

**Level of Risk: Medium** will remain.

## **4. Payment of Sales Tax**

The Office of Treasury and Fiscal Services had **two (2)** transactions totaling **\$60.61** that had sales tax paid of **\$3.49**. The transactions in the table below contributed to this finding.

A list of transactions contributing to this finding was provided to the Office of Treasury and Fiscal Services.

**Implication:** 1) State has paid more for goods than it should have, resulting in a financial loss; and 2) inadequate supervisory review.

**Level of Risk:** **Medium** due to the number of transactions **(2)** and dollar volume of **\$3.49** in tax.

**Reference:** O.C.G.A. § 48-8-3(1)  
State Purchasing Card Contract Guide

### **Recommendation:**

O.C.G.A. § 48-8-3(1) exempts state agencies from payment of State Sales and Use Tax when payment is made directly by the agency regardless of the method of payment. The State Purchasing Card Contract Guide requires cardholders to inform merchants of the agency's tax-exempt status and to provide a copy of the Department of Revenue's sales tax exemption certification, Form ST-5, to the merchant for their records. If the merchant charges sales tax in error, the cardholder is to obtain a credit for the taxes.

Cardholders should ensure merchants are aware of the State's tax-exempt status. Cardholders should print copies of the Department of Revenue's Form ST-5 to provide to merchants who request documentation for their files. Cardholders, supervisors, and reconciliation personnel should review all documentation to ensure that the merchant did not charge tax. If the merchant charged tax, then the cardholder should contact the merchant to receive immediate credit.

#### **Action Plans:**

1. Management should address the sales tax issue with all cardholders to ensure their understanding of procedures to ensure that the Agency does not pay sales tax by February 29, 2008. As part of this activity, copies of the Department of Revenue Sales and Use Tax Exemption form, Form ST-5, should be made available to all cardholders. Agency policy should also include instructions on how to retrieve this form from the Department of Revenue web site.
2. By [March 31, 2008](#), incorporate into Agency policy management's responsibility for regular review of sales tax charged to ensure that cardholders request and receive timely credit for any amounts charged. Instructions for retrieving this document from the Department of Revenue web site should be included in the Agency policy.

[The current version of the policy does not address management's responsibility to review transactions for independent audit or for sales tax.](#)

#### **OTFS Exception #11**

This finding contains significant factual errors. On page 4 of the Report, OTFS is cited as spending \$227.53 on sales tax, yet page 12 shows that \$14.41 was the amount actually spent on sales tax.

Furthermore, on page 12 [\(name omitted for publication\)](#) is cited as paying \$10.92 of sales tax. [\(Name omitted for publication\)](#) is not, nor has ever been, an employee of OTFS and this transaction should be stricken from the Report.

The actual sales tax paid by OTFS as noted in the report should be \$3.49 on two transactions this should be considered a low risk level, not a medium risk level.

#### **State Purchasing Division Response to Exception #11**

The summary on page four of the report shows the total dollar amount of the transactions on which sales tax was charged, not the amount of sales tax paid. The Process Improvement Team apologizes for any confusion relating to the information presented and has added the amount of the sales tax that was paid to this part of the report.

The transaction for [\(name omitted for publication\)](#) was inadvertently placed on the table for OTFS and has been removed from this finding. The Process Improvement Team apologizes for this error and any inconvenience this may have caused.

This finding will remain in the report because the Statewide Purchasing Card Contract Guide, in effect during this review, prohibited the payment of sales tax with the use of the purchasing card.

**Implications:** Original implications will remain.

**Level of Risk: Medium** will remain because sales tax was paid.

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## **Recommendations Not Related to Findings**

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Works Payment Manager, the card administration application provided by Bank of America, provides a number of data analysis reports. These reports are available from the Card Program Administrator for the Department of Administrative Services (DOAS). It is recommended that Office of Treasury and Fiscal Services obtain the Declined Transactions report from DOAS at least on a monthly basis in order to review transactions that the Bank declined.

The Process Improvement Team reviewed this report as part of this review. The report reflected attempted charges against invalid or prohibited Merchant Category Codes, indicating that cardholders attempted to make purchases that were not allowed or were restricted.

A common reason for declines was that the cardholder did not have a large enough credit limit. Regular review of this report can enable management to review actual spending patterns against cardholder profiles to determine if credit limits are appropriate for job responsibilities. Another reason for declines was that merchants were attempting to run recurring transactions against a closed account. In order to avoid this type of occurrence, it is recommended that cardholders maintain a list of all merchants who have recurring charges. If the Agency cancels the card for any reason, management could notify the merchant of the new account number to use in order to prevent disruptions of delivery of goods or services.

## Action Plan Summary

### Training Requirements

For appropriate program administration personnel, approving officials, and cardholders.

Resulting from Finding	Purpose	Conducted By	To Be Completed	Completion Date
<b>Internal Controls</b>				
No Agency Purchasing Card Policy	Ensure cardholders and their supervisors are familiar with State and Agency policies	OTFS management will meet with all personnel to review State and Agency policies  Review Agency policy with personnel	02-29-08  04-15-08	11-29-07 (Completed review of State policy with personnel)
Inadequate Internal Review	Ensure person or persons responsible for review are familiar with all State and Agency requirements	All program personnel should attend the Introduction to Purchasing Card Principles class	03-31-08	11-29-07 (regular cardholders) 04-29-08 (name omitted for publication – emergency card)
<b>On-Site Review</b>				
No Documentation in File	Ensure cardholders and supervisors are aware of requirements	All program personnel should attend the Introduction to Purchasing Card Principles class	03-31-08	11-29-07 (regular cardholders) 04-29-08 (name omitted for publication – emergency card)
Inadequate Invoice Information	Ensure cardholders and supervisors are aware of requirements	All program personnel should attend the Introduction to Purchasing Card Principles class	03-31-08	11-29-07 (regular cardholders) 04-29-08 (name omitted for publication – emergency card)

Resulting from Finding	Purpose	Conducted By	To Be Completed	Completion Date
Payment of Employee Travel Expenses	Ensure cardholders and supervisors are aware of requirements	All program personnel should attend the Introduction to Purchasing Card Principles class	03-31-08	11-29-07 (regular cardholders) 04-29-08 (name omitted for publication – emergency card)
Payment of Sales Tax	Ensure cardholders and supervisors are aware of requirements	All program personnel should attend the Introduction to Purchasing Card Principles class	03-31-08	11-29-07 (regular cardholders) 04-29-08 (name omitted for publication – emergency card)

## Other Requirements

For appropriate program administration personnel, approving officials, and cardholders.

Resulting from Finding	Requirement	Purpose	To Be Completed	Completion Date
<b>Internal Controls</b>				
No Agency Purchasing Card Policy	Develop Agency policy that complies with new State policy in order to provide guidance to program personnel	Strengthen internal controls; comply with State Purchasing Card Policy	03-31-08	01-16-2008
	Submit a copy of the updated Agency policy to Process Improvement	Allow Process Improvement to provide feedback	03-31-08	01-16-2008
	Process Improvement will review updated Agency policy	Provide feedback in order to ensure that new policy complies with State policy	04-07-08	04-07-08
Inadequate Internal Review	Incorporate into Agency policy a regular schedule of independent internal audit	Strengthen internal controls; comply with State Purchasing Card Policy	03-31-08	01-16-2008
	Incorporate into Agency policy the responsibility for conducting internal audit	Strengthen internal controls; comply with State Purchasing Card Policy	03-31-08	01-16-2008
No Cardholder Agreements	Incorporate into Agency policy the requirement for cardholders and their supervisors to sign cardholder agreements prior to receipt of the card	Provides cardholder acknowledgement of responsibilities	03-31-08	01-16-2008



Resulting from Finding	Requirement	Purpose	To Be Completed	Completion Date
No Cardholder Agreements	Require all cardholders to sign agreements	Provides cardholder acknowledgement of responsibilities	03-31-08	01-24-08 04-08-08 (Rec'd copy of agreement for name omitted for publication dated 11-26-07)
<b>On-Site Review</b>				
No Documentation in File	Incorporate into Agency policy specific guidelines on adequacy of documentation	Provide guidance to program personnel; strengthen internal controls	03-31-08	01-16-2008
Inadequate Invoice Information	Incorporate into Agency policy specific guidelines on adequacy of documentation	Provide guidance to program personnel; strengthen internal controls	03-31-08	01-16-2008
Payment of Employee Travel Expense	Incorporate into the Agency policy the types of purchases that are allowed on the purchasing card	Provide guidelines to cardholders on allowable and prohibited purchases	03-31-08	01-16-2008
Payment of Sales Tax	Make copies of DOR Form ST-5 available to all cardholders	Ensure that Agency does not pay sales tax	03-31-08	01-16-2008
	Incorporate review of sales tax charges into Agency policy	Ensure that Agency receives credit for sales tax when charged	03-31-08	01-16-2008